



PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO
607 North 8th Street
BOISE, IDAHO 83702

MINUTES
OF
MEETING OF RETIREMENT BOARD

The Board of the Public Employee Retirement System of Idaho met at the PERSI Administration Building, 607 North Eighth Street in Boise, Idaho at 8:40 a.m., August 27, 2002. The following members were present:

Jody B. Olson
Dennis L. Johnson
J. Kirk Sullivan
Susan K. Simmons

Trustee Pamela I. Ahrens was absent and excused. Executive Director Alan H. Winkle, Deputy Attorney General Brad Goodsell, Financial Officer James Monroe, Chief Investment Officer Robert Maynard, and Management Assistant Joanne C. Ax were also in attendance. Other persons attending portions of the meeting were:

Wendy McCall
Lucinda Smith
Rod MacKinnon
Bruce Reeder
Drew Black
Dennis Fitzpatrick
Casey Maslonka
Brian McGrath
Chris Growney
Jim Shakelford
Darin Rissinger
Matt Freeman
Robert Schmidt
James Coleman

Russell Mellon
Mellon
Mountain Pacific Investment Advisors
Mountain Pacific Investment Advisors
DB Fitzpatrick & Co.
DB Fitzpatrick & Co
DB Fitzpatrick & Co
DB Fitzpatrick & Co
Clearwater Advisors
Idaho Education Association
Boise School District
LSO-BPA
Milliman USA
PERC

Charlie Brown	REAI
Karl Malott	PFFI
Richelle Sugiyama	PERSI
Judy Aitken	PERSI
John R. Doner	PERSI
Gay Lynn Bath	PERSI

OLD BUSINESS

Approval of the Minutes: By motion duly made by Trustee Johnson and seconded by Trustee Simmons, the Board unanimously approved the minutes of the July 23, 2002, regular meeting of the Retirement Board as submitted. By a separate motion duly made by Trustee Simmons and seconded by Trustee Johnson, the Board unanimously approved the minutes of the July 30, 2002 meeting of the Investment Sub-Committee.

PORTFOLIO

Monthly Portfolio Update Mr. Maynard discussed his investment report dated August 2002, which he had updated from the one previously furnished to the Board. In the report, Mr. Maynard noted the following:

A fairly exciting month, as the markets dived on worries of a rash of new corporate accounting disclosures and signs of a weakening economy, only to bounce back as the CEOs certified their financial statements without any bombshells and moderately good earnings reports. As a result, the equity markets have risen 13% since the middle of July, to now being down "only" 4.4% since the new fiscal year began. PERSI's performance has been either as or better than expected, the TIPS account and Idaho mortgages being the best performers, and Tukman being the best equity performer. This month, REITS are having the greatest difficulty. All managers are either within their expected characteristics or have reasonable explanations for slight deviations. The transition of the CSAM account is all but completed, with only a couple of illiquid securities of nominal amounts remaining.

Mr. Maynard's report stated the current value of the fund as of August 26, 2002 was \$6,134,337,105. The fiscal year-to-date return percentage is negative 2.8 and the month-to-date return was a positive 2.3%. He has added a Factors page to his monthly report which compares actual market performance to the predictions and expectations our managers expressed during the May 2002 Investment Conference.

Mellon Trust Quarterly Update: Wendy McCall and Lucinda Smith discussed the report they had previously provided to the Trustees. The report included comparisons to other public fund master trusts; PERSI is doing better than target benchmarks, even

though the returns are not what we'd like. Boise based Mountain Pacific Investments reported great returns and local DBF beat their benchmarks also. Every segment, except international, met their benchmarks during this reporting period.

DEFINED CONTRIBUTION

Mercer Performance Report: CIO Maynard reviewed the Mercer Investment Consulting report for the second quarter 2002 which had previously been furnished to the Board. In this market, fixed income performed the best. He told the Board that staff is closely watching ING the small company fund because they have changed their investment style. In addition, he recommended further investigation into the Mellon Capital Management Index Fund returns, which according to the report, are exhibiting substantial tracking error relative to the respective benchmarks.

DC Plan Quarterly Statistic Report: DC Plan Specialist Gay Lynn Bath had provided a summary of the Choice Plan statistics for July 2002. Participation continues to increase with about a million dollars being invested in the plan each month. Rollovers into the plan increased significantly this month. Members are using the in-service transfer option as they prepare for retirement. By exercising that option, they can use Choice Plan money to buy back service in the DB plan. In response to a question from the Chair, staff said retirements have increased over former years, perhaps due to incentives offered by their employers.

Other Investment Business: Chairman Olson opened the floor to comments from managers who were attending the meeting. The turbulent economy is a reflection of the turbulent markets. Brian McGrath expressed optimism saying he believes we are having a typical economic recovery. As an economist, he watches consumer behavior rather than polls on consumer confidence. He noted that the housing market experienced a record year and that durable goods orders are significant. Other comments included the expectation of a marginal increase in interest rates and higher equity market returns in the next nine months.

Chairman Olson expressed interest in the corporate governance issue and asked staff to work with him to provide trustee education in this area.

EXECUTIVE DIRECTOR

Actuarial Modeling of Contribution Rate Issues: Actuary Robert Schmidt of Milliman, USA, explained the decision making process on the contribution rate increase issue. Presenting various options to the trustees, he discussed the two grace periods that are allowed by state law. The impact on employer budgets and on employee take-home pay was estimated for various rate increase scenarios. Chairman Olson thanked Mr. Schmidt for a clear presentation of the issue.

Trustee Johnson suggested the decision on these rates be made at the November meeting after elections so as not to affect the political process. There was no objection by the Trustees. Chairman Olson reiterated that the Board's fiduciary responsibility is exclusively to the participants. The contribution rate issue is not merely an arithmetic issue. The ability of the participants and employers to pay for the increase

will be a consideration in the timing of the rate increase. The Board will look for input on this issue in the coming months.

Chairman Olson said The Public Employee Retirement Coalition (PERC) and other interested constituents may address the Board at the September 24, 2002 meeting with their concerns and recommendations on the contribution rate issue. Mr. Winkle explained how the statutory grace periods could be invoked. Within a four-year period, two grace periods are available, each a one-year extension of a rate increase date. Matt Freeman of Legislative Services told the Board that JFAC is meeting October 7 and 8. Mr. Winkle and Mr. Maynard are speaking to them about the contribution rate issue. This meeting will provide insight as to how much the state can afford and the state's revised revenue projections. Chairman Olson said the Board has no appetite for changing the 25-year amortization law.

FISCAL

Expense Reports: Financial Officer James Monroe reviewed his memorandum to the Board dated August 20, 2002, which provided an overview of fiscal issues. He said audit staff from Deloitte and Touche' are currently on site for the FY 2002 audit.

He then reviewed the Administrative and Portfolio expense reports for the month ended July 31, 2002, which had previously been furnished to the Board. Trustee Sullivan asked how PERSI's personnel expenses compare to funds of a similar size. Mr. Winkle said a national survey of public plans and the CEM study both provide that information. He will get the data to Mr. Sullivan. Mr. Winkle said our total operating costs are in the bottom quartile or close, compared to other public funds. Chairman Olson asked if PERSI is limiting expenses in line with other agencies. PERSI ordinary expenses are at about the normal level, but salaries have been held back as in all state agencies. Mr. Monroe said anticipating the holdback, PERSI finished the last fiscal year with a budget surplus.

Fiscal Year 2004 Budget Request: No enhancements or decision units were proposed in the request for FY 2004 presented to the Board. Chairman Olson asked about the additional legal help we need. Staff responded that if the Attorney General's office cannot supply the needed staffing, we will contract for help. If the workload remains at the increased level, we will ask for additional permanent staffing in the future. By motion duly made by Trustee Sullivan, seconded by Trustee Johnson and unanimously approved, the Board approved the Proposed Budget Request for FY 2004 as presented.

Quarterly/Annual Financial Statements: Senior Accountant Rhonda Yadon reviewed the unaudited financial statements for the years ended June 30, 2002, and 2001. The sick leave account has been added to this report so it will all be available in one document. The contributions receivable number is lower than last year because now we are receiving them each pay period, leaving smaller outstanding balances.

Responding to a question from the Chair, Trustee Simmons said she met independently with the auditors to discuss the audit scope and to gain assurance that the scope is significant to cover all matters. We are applying the new SEC rules on audit committee guidelines as much as possible, even though they don't apply to government entities. Chairman Olson said he wants PERSI to be the most open and

audited agency in the state and wants all our independent consultants to report to the Board and to not be influenced by staff.

LEGAL:

Bruce Jones Final Decision: Deputy Attorney General Brad Goodsell had provided a memo to the Board with background information in the matter of Bruce Jones. Copies of the findings of fact, conclusions of law and recommended decision by the hearing officer were also provided. While a request for an exception was received by PERSI, it was not filed timely. By motion duly made by Trustee Johnson seconded by Trustee Simmons and unanimously approved, the board issued the proposed FINAL DECISION AND ORDER adopting the recommended decision of the hearing officer in the contested case of Bruce Jones v. PERSI, Case No. CC-01-01.

Appointment of Hearing Officer for Disability Appeal: Mr. Goodsell told the Board that we need a hearing officer to hear the disability appeal of Kenneth King. The Attorney General's office will provide an attorney to represent staff in the matter, because Mr. Goodsell will represent the Board. Mr. Winkle explained the appeal process, saying the matter will come back to the Board for final decision and they will have the hearing officer's recommendation to consider at that time. By motion duly made by Trustee Sullivan, seconded by Trustee Johnson and unanimously approved, the Board authorized the Executive Director to appoint a hearing officer in the matter of Disability Claimant Kenneth King to conduct a contested case hearing and to issue a recommended decision.

EXECUTIVE DIRECTOR (continued)

Minimum Salary Benefit Report: Mr. Winkle had previously provided a memorandum on the subject dated August 20, 2002. The memo addressed the issue of a member who was an elected official for several years and took an appointed position for \$1 per year to extend his service credit. The Board had asked that staff review the issue of minimum salary for PERSI membership. The report concluded that only one PERSI member is reported to be receiving compensation below \$50 per year. There was further discussion as to how a mixed service benefit is calculated. Noting that the member who had the \$1 per year salary had resigned, making this a moot issue, the Board took no further action.

Status Update: No new legislation is being proposed for the 2003 session. The review of the higher education sick leave program revealed some small inconsistencies within that program. Staff will be working with the institutions involved to discuss a range of solutions to the problems. Mr. Winkle said the retirement education classes for members within five years of retirement are overflowing. Classes are full until February 2003. Our benefits staff set a new record by processing nearly 500 retirements for September 1, 2002. These are primarily school employees. However, the July 1 numbers were nearly double that of the previous year.

Last Friday Mr. Winkle and Consultant Doug Dorn spoke at a Special Committee Hearing on Aging with Senator Craig. This was a follow up to the National Savers Summit they attended in Washington DC earlier in the year. The hearing addressed the lack of retirement savings by the general population. In September, Mr. Winkle will speak at gatherings of city clerks and finance officers in Boise and in Moscow to the

Idaho Association of Counties. He will be giving information about the impending contribution rate increase, the range of Board options, and gathering input from the constituents.

FUTURE BOARD MEETINGS

Tuesday, October 22, 2002, 8:30 a.m., Boise - PERSI office

Tuesday, November 26, 2002, 8:30 a.m., Boise - PERSI office

Tuesday, December 17, 2002, 8:30 a.m., Boise - PERSI office

Adjournment: There being no further business to conduct, by motion duly made by Trustee Johnson seconded by Trustee Simmons and unanimously approved, the meeting was adjourned at 10:45 a.m.

Jody B. Olson
Chairman

Alan H. Winkle
Executive Director